Newfoundland Labrador

Department of Finance

Government Money Purchase Pension Plan Committee

2013 Activity Report

June 2014

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Government Money Purchase Pension Plan
Administration Committee
P.O. Box 8700
St. John's, NL
A1B 4J6

Honourable Charlene Johnson
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Johnson:

As the Chair of the Committee responsible for the Government Money Purchase Pension Plan (GMPP), I hereby submit the 2013 Annual Report for the Committee. The report was prepared under the committee's direction and the committee is accountable for the results contained herein.

The GMPP Committee's mandate is to administer the GMPP, including the setting of investment policy, the recommendation for appointment of an administrator/custodian and the monitoring of plan performance.

The GMPP is a capital accumulation plan, that is, the level of benefits provided at retirement are dependent on the contributions and the income earned on those contributions during an employee's career. It is critical that participating employees become actively engaged in the management of their respective plan assets in order to ensure security in retirement and is the key strategic issue for the GMPP Committee. Plan members have been reluctant to make any investment choice, and instead are allowing their funds to be directed to the low risk, low return default investment. Employees should be aware of both the potential risks and rewards of making an active decision and the possible impact of their return goals.

This annual report outlines the activities of the GMPP Committee and the growth in assets and membership during 2013. It represents the final report on activities identified in the Committee's 2011-2013 Activity Plan. On March 31, 2014, the Committee tabled in the House of Assembly, its new 2014-16 Activity Plan.

I am pleased to submit the 2013 Annual Activity report for your consideration.

Yours sincerely,

Denise Hanrahan
Chair of the GMPP Committee

OVERVIEW

The GMPP provides pension coverage for part time employees of government and its agencies and employees of government funded organizations that are ineligible to participate in any of the other government sponsored pension plans. The GMPP Committee was established by the Lieutenant-Governor in Council to oversee the operations of the Government Money Purchase Pension Plan. Employer representatives are appointed by virtue of their positions in government, while employee representatives are appointed based on the recommendation of the various unions. Committee members are responsible to ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

Government Money Purchase Pension Plan Committee Members
(As of December 31, 2013)

Government and Employer Representatives:	
Denise Hanrahan	Assistant Deputy Minister, Financial Planning and Benefit Administration, Department of Finance
Maureen McCarthy	Director, Pension Administration, Department of Finance
William Noftall	Manager, Pension Benefits, Human Resource Secretariat
Brian Shortall	Executive Director, Newfoundland and Labrador School Board Association
Vacant	Eastern Health Authority
Marie Wells	Director, Human Resources, Policy and Planning, Human Resource Secretariat
Michael Rickert, Secretary	Departmental Program Coordinator, Human Resource Secretariat
Employee Representatives:	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Miriam Sheppard	Newfoundland and Labrador Teachers' Association
Bruce Callahan	Association of Allied Health Professionals
Dawn Learning	National Representative, Canadian Union of Public Employees
Debbie Forward	Newfoundland and Labrador Nurses' Union

Note: Denise Hanrahan assumed the role of Chairperson in November, 2013. Prior to that date, the position was held by Anne Marie Miller.

The retirement security of a GMPP member depends on the member's investment decision, which in turn depends on the member's investment profile and risk tolerance. Consequently, it is critical that members take an active interest in their portfolio. To facilitate prudent investment decisions by members, the Committee has established and implemented a Statement of Investment Policies and Procedures which specifies the investment options to be provided to members. These options include Guaranteed Investment Accounts (GIAs) and market based funds, including an equity fund, a bond fund, a global equity fund and a balanced fund.

To assist in fulfilling its mandate to educate plan members, the Committee has retained the services of Great West Life Assurance Company (GWL) who fulfills the roles of both the custodian and administrator of the GMPP. The Committee also retains an investment consultant, Russell Investments to assist in the design, implementation, and ongoing evaluation of all aspects of the pension investment program.

Phillips, Hager & North Investment Management Limited (PH&N) has been retained to manage all market based investment products and Morneau Shepell, on an as needed basis, provides advice on various pension issues relating to compliance with pension legislation and the *Income Tax Act*.

MANDATE

The GMPP Committee's mandate is to administer the GMPP, including the setting of investment policy, the recommendation for appointment of an administrator/custodian and the monitoring of plan performance. This mandate is established under the *Government Money Purchase Pension Plan Act*.

LINES OF BUSINESS

Prudent management of the GMPP, including:

1. The development, implementation and review of investment alternatives to provide plan members with the ability to make an active investment decision with respect to their accumulated funds
2. Promotion of the plan and education of plan members on the importance of taking an active interest in their investments
3. Oversight to ensure that contributions accumulated to the credit of plan members are invested prudently in the investment classes prescribed by the Committee

VALUES

Self Determination: All plan members have a right to make or not to make an active investment decision with respect to their accumulated funds.

Respect: Each member of the GMPP Committee respects the rights of plan members to make or not to make an active investment decision with respect to their accumulated funds

PRIMARY CLIENTS AND STAKEHOLDERS

The primary clients for the GMPP Committee are the employees who participate in the plan.

The stakeholders for the GMPP Committee are the Minister of Finance as Trustee, 53 participating employers and the Unions which represent participating employees.

VISION

The vision of the GMPP Committee is to have all participating employees select an investment strategy suited to their retirement objectives with the ultimate goal to maximize the amount of pension funds available at retirement.

MISSION

Consistent with its vision that all employees will take an active interest in their retirement objectives, the Committee's mission is to enhance plan administration and continue to encourage employee participation in the investment selection process. As such, the Committee identified the following mission statement in its 2011-13 Activity Plan:

Mission: By 2016, the Government Money Purchase Pension Plan Committee will have built on the success of the GMPP by improving administration for the benefit of all plan members and engaging more stakeholders in decision making.

Measure: Enhanced administration
Indicators: Reduced turnaround time for plan to plan transfers

Measure: Plan member engagement
Indicators: Increased number of plan members taking active interest in their investments

Increased attendance at information sessions

2011-13 Summary of Results

To support the Committee in its efforts to reduce the turnaround time for plan to plan transfers, the Department of Finance allocated dedicated resources to the transfer process. Unfortunately, due to such factors as complexity of the transfer and time required to receive critical information from employers, the turnaround time was not reduced. The Department continues to support the Committee in reducing the turnaround time for plan to plan transfers.

Over the course of the 2011-13 Activity Plan, the percentage of new plan members who took an active interest in their investment selection increased from 41% of new members to 43% in 2013. The Committee attributes this increase to its enhanced educational efforts, such as the provision of on-line webinars, member investment selection information sessions, and the launch of a plan member enrolment video.

During 2012, the Committee offered 15 in-person Member Education Sessions, which were attended by a total of 137 members. Additionally, during that time period, 21 on-line webinars were made available, in which 263 members participated. During 2013, the Committee offered 12 in-person Member Education Sessions, which were attended by a total of 71 members. Additionally, during that time period, 30 on-line webinars were made available, in which 137 members participated. Despite the Committee's efforts to provide

meaningful and valuable information sessions to its members in manners that are most convenient to them, attendance still remains poor, as indicated by the low percentage increase in new members making active investment choices. The Committee however remains committed to increasing active investment choices by offering helpful support to its members when making difficult and complex investment decisions.

KEY STATISTICS

Administration Costs - December 31

	2013	2012
Investment Management Costs (PH&N)	$ 323,362	$ 294,637
Russell Investments	14,000	14,000
Annual Pension Plan Registration	7,500	7,500
Support Staff	47,104	47,250
Administrator's Conference*	0	35,367
Total Administration Costs	$ 391,966	$ 398,754

*During September 2012 the first GMPP Administrator's Conference was held as part of the Committee's mission of enhanced administration

Since the inception of the GMPP in 1989, actuarial consulting and support staff costs have been paid from employer contributions that are forfeited when members who are not vested terminate from the plan and take a refund of their contributions. The balance in the forfeitures account was $1,194,078 as of December 31, 2013 as compared with $2,773,574 as of December 31, 2012. Subsequent to the 2012 year end, $2,000,000 was paid to the Province from the Forfeiture Account to reduce expenses of the plan.

Investment management fees for Philips Hager & North, which are based on a percentage of the total plan assets which they manage, are paid by the plan member from their investment earnings.

Membership Status

Plan membership has increased from 31,662 accounts in 2012 to 31,919 accounts in 2013. The number of accounts includes both active participants and terminated employees who have left their funds on deposit with GWL. Of the total number of accounts, 12,939 are members who contributed during 2013. Efforts are continuously on-going to contact many of the account holders to advise them of their transfer options should they wish to move their funds from the plan. The following table details the change in membership from 2012 to 2013.

	2013	2012
Membership, January 1	31,662	31,243*
Additions		
Enrolments during the year	2,667	2,714
Less: Exits		
Terminations	2,274	2,132
Death Benefits	26	33
Retirements	110	130
	2,410	2,295
Membership, December 31	**31,919**	**31,662**

* Membership figures adjusted to include new members in 2011 posted after year end summary.

FINANCIAL HIGHLIGHTS

Market Value

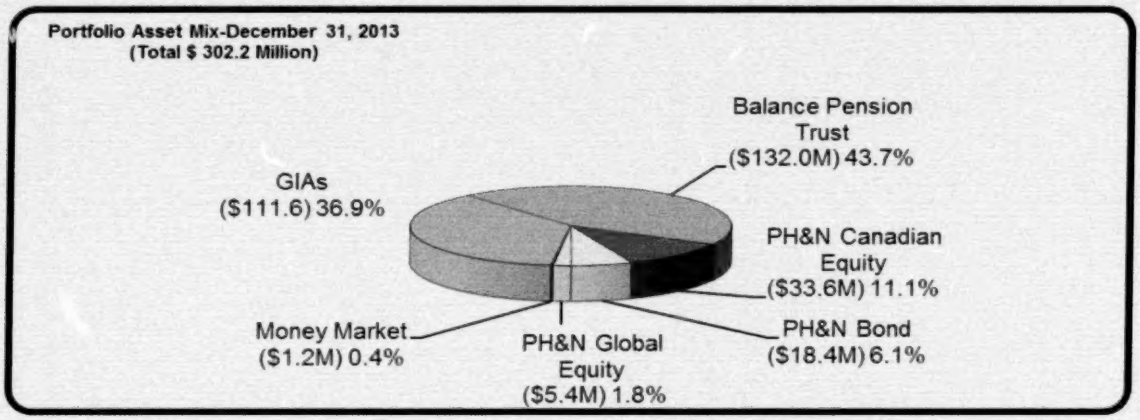
Employee contributions for the year totalled $13.7 million of which $237,139 were Additional Voluntary Contributions (AVC's) and $139,887 were transfers from other pension plans. Plan members may deposit AVC's to the plan, subject to RRSP limitations under the *Income Tax Act*. These AVC's are not matched by the employer. Employer contributions for the year totalled $13.4 million and investment income was $24.0 million. Statement of changes in Assets for the year ended December 31, 2013 is shown below:

Statement of Changes in Assets for the Year Ended December 31
(Market Value)

	2013 ($Millions)	2012 ($Millions)
Opening Balance, January 1	**$274.0**	**251.9**
Contributions to the Plan	27.1	26.6
Investment Income	24.0	13.4
Total Additions	**51.1**	**40.0**
Refunds to Terminating Plan Members	22.5	17.5
Administration Costs	0.4	0.4
Total Deductions	**22.9**	**17.9**
Net change in assets	28.2	22.1
Market Value, December 31	**$ 302.2**	**$ 274.0**

Portfolio Asset Mix

Based on the asset decisions of plan members and the direction of the employer's share to the balanced fund, the asset mix of the portfolio as of December 31, 2013 is illustrated in the following chart:


Portfolio Asset Mix-December 31, 2013
(Total $ 302.2 Million)
Balance Pension Trust ($132.0M) 43.7%
GIAs ($111.6) 36.9%
PH&N Canadian Equity ($33.6M) 11.1%
Money Market ($1.2M) 0.4%
PH&N Global Equity ($5.4M) 1.8%
PH&N Bond ($18.4M) 6.1%

Investment Performance as of December 31, 2013

The following table details the performance of the GMPP market based funds to December 31, 2013:

Government Money Purchase Pension Plan (GMPP)
Summary of Investment Returns as at December 31, 2013
with Benchmark comparisons

Investment Options	Three Months %	One Year %	Five Years %	Ten Years %
Balanced Pension Trust	6.3	14.6	9.8	6.1
Benchmark*	5.6	12.5	9.0	6.2
Canadian Equity Fund	8.8	20.0	13.0	7.9
S&P/TSX Composite Index	7.3	13.0	11.9	8.0
Bond Fund	0.5	-0.7	5.9	5.5
Dex Universe Bond Index	0.4	-1.2	4.8	5.2
Global Equity Fund	12.3	33.2	11.1	3.3
MSCI World ex Canada Index	11.8	36.3	11.7	4.8

* Current benchmark composition: 35% S&P/TSX Capped Composite Index, 25% MSCI World ex Canada Index, 35% Dex Universe Bond Index, 5% Dex 30-Day T-Bill Index.
Note: All performance data is shown on a gross "pre-fee" basis.

Asset Mix and Fund Performance information was extracted from the December 31, 2013 PH&N Fund Management Report

ACTIVITIES

Issue 1: Improved Governance

The current committee membership structure was implemented in 1997 with a view to ensuring that all plan stakeholders were represented. Broad membership representation along with pension standards legislation and industry best practices have supported the governance practices of the committee. GWL in its role as plan administrator has also assisted the committee in fulfilling its role. However the Committee recognized the need to review current processes to ensure that it is fulfilling its fiduciary obligations to plan members. To this end, the Committee identified the following goal in its 2011-13 Activity Plan:

Goal: By 2013, the GMPP Committee will have improved its governance practices.

Measure: Governance practices are improved
Indicators: Implemented administrative mechanisms for improved governance
Implemented education plan for GMPP Committee members

The corresponding objectives established to focus the completion of this goal included the completion of a governance review in 2011, development and implementation of revised governance practices in 2012, and a review of the effectiveness of its revised governance structure in 2013. Specifically, the following objective was identified for the 2013 fiscal year:

Objective: By December 31, 2013, the GMPP Committee will have reviewed the effectiveness of the new Governance practices.

Measure: New governance practices implemented and reviewed
Indicators: Implemented administrative mechanisms for improved governance

Implemented education plan for GMPP members

Completion of post implementation review

Summary of Performance on the Goal and Year 3 Objective:

The completion of the governance review was delayed due to changes to the Committee membership and shifting priorities within the Pensions Division. The review however was completed during the 2012 fiscal year. Unfortunately, due to further changes in committee membership as a consequence of departmental restructuring, the recommendations, which included the development of a governance education plan, was not approved by the Committee. As such, the GMPP was unable to implement improved governance practices, and thus complete a post implementation review.

Issue 2: Education and Promotion

The GMPP is a capital accumulation plan where employee contributions together with the employer match are deposited to individual accounts. The employee has the option to allocate those contributions to a variety of investment vehicles, with the ultimate accumulation at retirement dependent on the investment selection of the employee. Employees are provided with the tools to assist them with their asset allocation decision, but many either do not or choose not to avail of those tools. The Committee has endeavoured to engage employees in the process by promoting the plan and offering annual educational sessions across the province. As such, the following goal was identified in its 2011-13 Activity Plan:

Goal: By December 31, 2013, the GMPP Committee will have enhanced the opportunities for plan members to become engaged in investment decision making.

Measure: Capacity for engagement is enhanced

Indicators: Developed resources to facilitate decision making

Increased opportunities to participate in education

Development of an education and promotion plan targeted to specific plan member groups

The corresponding objectives established to focus the completion of this goal included the development of educational initiatives in 2011, and implementation of those initiatives during 2012 and 2013. Specifically, the following objective was identified for the 2013 fiscal year

Objective: By December 31, 2013, the Committee will have continued implementation of the education and promotion plan for plan member's engagement in investment decision making.

Measure: Capacity for engagement is enhanced

Indicators: Developed resources to facilitate decision making

Increased opportunities to participate in education

Development of an education and promotion plan targeted to specific plan member groups

Because the wording of the goal, measures and indicators are so similar to the wording of the 2013 objective, measure and indicators, the results are combined and summarized on the following page.

Summary of Results on Goal and 2013 Objective:

During 2011, the Committee identified and then developed resources to facilitate investment decision making by its members. Resources developed included an on-line webinar, targeted information sessions focused on member investment selections and retirement options, plan member enrolment video and an Administrator Conference. These initiatives represented an increase in opportunity for members to enhance their education.

During 2012 and 2013, these resources were deployed in a manner thought to be most convenient to members – various locations throughout the province at times during working hours as well as outside normal working hours. Specifically during the 2013 fiscal year, the Committee provided:

- 30 on-line plan member education sessions; this was attended by 137 plan members
- 12 in-person member education sessions, of which 71 members attended
- 3 GMPP Administrator Education Sessions, which was attended by 29 administrators, representing 12 employers

During this time period, the Committee also evaluated the effectiveness of its on-line webinars, the results of which showed the need to continue to offer such a service. The Committee also surveyed its members to determine interest in adding additional investments, such as Target Date Funds, to the line-up of investment options. Unfortunately the response received from members was extremely low; insufficient to determine member interest and make subsequent adjustments to the portfolio of investment choices.

While the Committee clearly has met its goal and annual objective to enhance opportunities for members to become engaged in active investment decision-making by implementing an education and promotion plan, the uptake of these services was not what was hoped, as evidenced by the continued low percentage of members making active investment decisions. The Committee however will continue to encourage its members to become engaged and will also continue to improve upon its educational and promotional offerings.

CONTACT INFORMATION

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